

# CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

## Dear Shareholder,

We are pleased to report that 2012-2013 was a very successful year for the Company underscored by a number of corporate and operational achievements that we believe will lay the foundation for an active value adding exploration program moving into the future.

Icon's flagship asset is its interest in ATP 855 in the Cooper Basin. During the year the ATP 855 joint venture drilled, fracture stimulated and flow tested its first exploration well, Halifax-1, in ATP 855. Icon believes the results from Halifax-1 and two other wells drilled in ATP 855 are very encouraging and have confirmed that the basin-centred and shale gas potential within the Nappamerri Trough extends into ATP 855 in south west Queensland. The potential of ATP 855 was further confirmed by the significant gas shows recorded from the Halifax-1, Hervey-1 and Keppel-1 wells and Icon's first booking of contingent resource in the area surrounding Halifax-1.

Early in 2013, Chevron Australia farmed into ATP 855 with Beach Energy assigning up to 60% of its interest in ATP 855 and PEL 218 to Chevron over two stages. The joint venture will benefit from Chevron's experience and expertise in shale gas and basin-centred tight gas exploration and development.

One of the significant challenges for listed exploration companies in the current economic environment is to source sufficient capital to fund a productive exploration program. In late 2012 Icon Energy undertook a successful fundraising campaign raising a total of \$14.1 million through a corporate share placement and a Share Purchase Plan. In June 2013, Icon Energy farmed down its interest in ATP 855 by 4.9% to Beach for US\$18 million. Capital raised from these initiatives will be used to fund an accelerated exploration program in ATP 855. The total raised was approximately A\$34 million.

At the end of the 2013 financial year, the Company recorded a profit of \$3,720,392 after tax. The Company is in a strong financial position and is well placed to take advantage of exploration opportunities that present themselves in 2013-2014.

## OPERATIONAL STRATEGY

The most significant change in Icon Energy's operational strategy during the year has been the re-evaluation, restructuring and prioritisation of its operations. For an exploration company of Icon Energy's size, there is a need for exploration strategy and capital allocation to be focussed on the most commercially viable projects while maintaining a portfolio of alternative project options for future development.

Icon Energy's interest in ATP 855 is the largest asset in the Company's portfolio and exploration results to date have been encouraging. The Company is committed to continue exploration and meet its exploration permit



Stephen Bary and Ray James

obligations in ATP 855 that will result in the drilling, fracture stimulation and flow testing of at least another three wells by October 2014.

The Company's other major assets include interests in ATP 626 in the Surat Basin and PEPs 170, 172 and 173 in the Gippsland Basin in Victoria. During the year the ATP 626 joint venture conducted a review of the potential of the tenement. The Company is using the review findings to formulate a strategy for further evaluation of the permit. In Victoria the Company has secured its interest in PEPs 172 and 173 by completing the negotiation of an Indigenous Land Use Agreement (**ILUA**) with the Gunaikurnai People. The Company has also reviewed the prospectivity of its other exploration tenements which led to the divesting of its interest in ATP 849 in the Surat Basin.

## STRATEGIC MANAGEMENT

Icon Energy's growth strategy is based on a simple objective. Build shareholder wealth through successful exploration and development of our oil and gas resources. Our main objective in 2012-2013 was to secure the necessary finances to fund our exploration program and work closely with our joint venture partners to implement the program in a way that would maximise the value from our investment. We were pleased that we were able to raise approximately \$34 million in a difficult financial market.

In recognition of the highly prospective nature of tenement ATP 855 and the value added by the joint venture parties, Beach Energy and Icon were able to achieve record prices for the sale of part of their interests in the tenement during the year when compared to prior sales of shale gas interests. Icon's sale of 4.9% of its interest in ATP 855 was necessary in order to be able to fund the ongoing development of the tenement.

## OPERATION HIGHLIGHTS

### **Cooper Basin (Nappamerri Trough Natural Gas)**

The ATP 855 joint venture commenced drilling the Halifax-1 vertical exploration well in early August 2012. Halifax-1 was the first well to be drilled in ATP 855 as part of a drilling program designed to evaluate the continuation of the unconventional shale gas and basin-

centred gas potential of the Nappamerri Trough into south west Queensland.

Gas shows over an interval in excess of 1,300 metres were encountered throughout the Roseneath, Epsilon and Murteree (**REM**) and Patchawarra Formations with very thick horizons including 460 metres of the Roseneath, Epsilon and Murteree REM section and 490 metres of the Patchawarra Formation at total depth. All these horizons appeared to be over-pressured throughout.

In late December 2012, the Joint Venture began a 14 stage hydraulic stimulation of the Halifax-1 well including seven stages in the Toolachee, Daralingie and REM Formations and seven stages in the Patchawarra Formation. Halifax-1 was then flow tested over a six month period recording a peak gas flow rate of 4.5 MMscf/d on a 48/64" choke for a short period and a maximum daily rate of 3.7 MMscf/d on 96/64" choke.

Over the six month flow test period from February 2013, Halifax-1 produced 243 MMscf of gas. A Notice of Petroleum Discovery was lodged with the Department of Natural Resources and Mines (**DNRM**). In late August Halifax-1 was shut in and the well is currently on long term pressure build-up.

Beach Energy, in its capacity as Operator of the ATP 855 joint venture, recently engaged a petroleum resource evaluation consultant to undertake a report on Contingent Resources in the area around the Halifax-1 well. The assessment reported 318 Bcf of 1C, 629 Bcf of 2C and 1.115 Tcf of 3C gross contingent resource.

The results from the Halifax-1 well encouraged the joint venture to continue the exploration program and the Company announced that five additional wells will be drilled in ATP 855 prior to October 2014 to meet the exploration permit obligations.

The first of the additional wells, Hervey-1 was spudded on 26 May 2013 and was located 30 km east of Halifax-1. Hervey-1 encountered significant gas shows throughout the Permian section which was very encouraging and the thickest Patchawarra Formation segment intersected to date of over 800 metres. Hervey-1 is expected to be hydraulically stimulated in early 2014.

The second additional vertical well Keppel-1, located 25 km north east of Halifax-1, was spudded on 3 June 2013. Significant gas influx was experienced from the over-pressured Epsilon Formation at a depth of 3,898 metres and the Operator suspended the well making it available for re-entry. On 20 August 2013 the Operator lodged a Notice of Petroleum Discovery with the DNRM.

Geoffrey-1 is the next well proposed in the drilling program with a spud date scheduled in October 2013. The Geoffrey-1 well is located 36 km north-east of Hervey-1 and will be a vertical well drilled to a target depth of 4,266 metres. The drilling activity in ATP 855 to date has confirmed the continuation of the basin-centred gas play across the tenement and shows that the Nappamerri Trough is a prospective shale and tight gas province.

#### **Surat Basin**

Following the drilling of Eolus-1 and Windom-1 wells in ATP 626, Icon and joint venture partner Goondi Energy engaged

AWT International to evaluate the potential of the tenement using results from all exploration wells drilled in and around the tenement as well as 2D seismic data. In accordance with best environmental safety practices, Icon Energy initiated a plug and abandonment and rehabilitation program of old exploration wells that would not be utilised in the future development of the permit. On 3 July 2013, Icon Energy acquired the equity interest of Goondi Energy in ATP 626. Icon Energy is committed to the ongoing development of ATP 626 and is in the process of formulating a strategy for further evaluation of the permit.

#### **Gippsland Basin**

In 2012 the Victorian Government introduced a moratorium on fracture stimulation of unconventional gas wells in Victoria. Prior to the introduction of the moratorium the Company was in the process of securing approval to carry out 400 km of 2D seismic acquisition and drill two exploration wells on PEP 170. Following the announcement the Company decided not to progress its exploration program in Victoria until the moratorium has been lifted. In August 2013 the Company successfully concluded negotiations with the Gunaikurnai People for an ILUA covering areas subject to native title in PEPs 170, 172 and 173. PEPs 172 and 173 had been awarded to Icon Energy subject to the successful completion of an ILUA. The Company looks forward to working closely with our stakeholders in the future development of these tenements for the mutual benefit of all parties.

#### **GOVERNANCE**

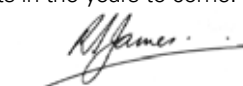
We are very pleased to report that the Company has maintained its excellent record for safe and environmentally responsible operations with no incidents or accidents occurring during the year. Icon Energy's OHS&E strategy focuses on competent employees, ongoing training and vigorous contractor management to ensure that Company personnel operate safely and with respect and integrity at all times.

The Board works closely with management to ensure the Company has the right frameworks, policies and controls in place to create an environment that motivates executives and staff to outperform but does so in a structured and responsible manner. During the year the Board approved a number of key governance initiatives including the rollout of a new executive and staff performance incentive plan, risk management framework and a comprehensive update of Company policies.

Icon Energy has had an outstanding year in 2012-2013 and it would be remiss of us not to acknowledge the significant contributions made by the members of the Board, the management team and most importantly our employees. We would also like to thank our shareholders for their support and patience over recent years. Your Directors believe that the results in 2012-2013 will set the foundation for even better results in the years to come.



S M Barry  
Chairman



R S James  
Managing Director